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Japan to Seek Cancellation of Tariffs

U.S. Sees Chip War As Threat to Defense

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Key Reagan administration officials have concluded that Japan is attempting to dominate the computer chip market and threatening the domestic research base the Pentagon needs to develop and maintain modern weapons systems.

That view, which is not a consensus within the administration, is bolstered by a secret analysis by the Central Intelligence Agency of Japanese high-technology strategies, administration sources said.

The administration is split, however, on whether Japan's growing strength in semiconductors and computers is part of a deliberate national strategy to dominate in high technology industries, or simply the result of the unharnessed power of its very large, very competitive electronics firms.

Both the administration and the U.S. semiconductor industry worry that defense industries are becoming too dependent on a foreign supplier, and that declining sales by U.S. companies may dry up the profits that fund the basic research needed to maintain U.S. technological superiority in weapons systems.

The view that Japan has embarked on a deliberate strategy to dominate computer and semiconductor technology is bolstered by a secret analysis by the Central Intelligence Agency of Japanese high technology strategies, administration sources said.

It is expressed in classified communications from U.S. diplomats in Tokyo, some high-ranking officials said. In particular, they cited a U.S. Embassy report of comments by a senior Japanese trade official, Makoto Kuroda, in January.

Kuroda's remarks to U.S. officials supported the view that Japanese technology companies, aided by the government, had targeted key U.S. markets in a strategy to achieve the eventual domination of the world computer market, according to sources who have seen the embassy report.

State Department policymakers, however, don't share that point of view. A Japanese specialist there pointed to Japan's reliance on the U.S. defensive shield for its national security and said a "broad web of interdependence" exists between the two countries.

But concerns also were raised in February by a Defense Science Board task force, which reported that the United States already relies on foreign technology to an unacceptable degree, posing "a direct threat to the technological superiority deemed essential to U.S. defense systems."

The loss of leadership in high technology products, even to an ally such as Japan, threatens the U.S. defense posture because of its heavy dependence on technological superiority in weapons to overcome the larger armies of potential enemies.

"The Japanese have set out to be the world leaders in electronics and computers. Everybody knows that," said Charles Herz, general counsel of the National Science Foundation and a member of a high-level administration group that is analyzing the national security and economic implications of Japan's challenge to the U.S. semiconductor industry.

Herz's group, which includes members from the National Security Council and the White House Office of Science and Technology Policy, has spent eight months on the semiconductor issue and still has some distance to go, he said.

It is not clear how much of Japan's drive reflects a national strategy and how much results from the highly competitive electronics firms, Herz said. But the potential impact is very broad, he said.

"The current draft [report] presents a pessimistic scenario—and also says some positive things—but doesn't try to predict the future," Herz said. "There are real causes for concern."

Assistant Secretary of Defense for International Security Richard N. Perle said he is disturbed enough over the erosion of the United States' leadership in high technology to seek a Pentagon study of its effects on national security. He emphasized that the study was not aimed at Japanese actions, but would be necessary if any country were threatening U.S. dominance in defense-related technologies.

Commerce Secretary Malcolm Baldrige reflected the increasing concerns within the administration when he told the Senate Finance Committee on March 25, "I can only conclude that the common objective of the Japanese government and industry is to dominate the world electronics market.

"Given the importance of this market to U.S. industry in general and our defense base in particular," he continued, "we cannot stand by idly."

He cited Japan's failure to abide by a semiconductor trade agreement designed to give U.S. manufacturers a chance to regain sales lost because of unfair tactics by the Japanese; Japan's refusal to buy U.S. supercomputers for its public agencies and universities, reserving that prime market for its own producers, and the continuing struggle by American companies to sell telecommunications equipment in that country despite Tokyo's agreement to lower its barriers.

"Japan has free access to our market, while our access to their market is restricted," Baldrige said. "Their companies enjoy the cost advantages of selling in Japan and the United States, the world's largest market. Our companies operate at a clear disadvantage because they are denied access to the Japanese market."

These warnings about the Japanese dominance fueled opposition in the Reagan administration, led by the Defense and Commerce departments, to the proposed purchase of a leading Silicon Valley chip maker, Fairchild Semiconductor Inc., by a major Japanese electronics conglomerate, Fujitsu Ltd. Fujitsu abandoned the plan last month when it appeared the administration would try to block the takeover.

These concerns also added weight to President Reagan's decision March 27 to order trade sanctions against Japan for failing to keep the semiconductor trade agreement.

Semiconductors—the tiny silicon chips that store and transfer electronic signals—are the brain cells of a host of products, from videocassette recorders to high-technology weapons systems.

"Semiconductors truly are 'the industrial rice' of the information age," said the Defense Science Board report. "It would appear critically important for the U.S. to regain and maintain a strong competitive position in that field."

But the U.S. semiconductor industry has been declining for years, compared with Japan. In 1985, Japan's total sales of semiconductors surpassed the U.S. total for the first time. The U.S. manufacturers' share of the world market for computer memory chips has fallen from 100 percent to less than 10 percent in about a decade as the Japanese manufacturers have captured a succession of product lines.

Within the interagency group studying the semiconductor industry, "There is a lot of focus on the consequences of losing ground in semiconductors, as far as our future national security requirements are concerned," Herz said. He said he believes that "just as much attention should be paid to the implications of the decline for our economic competitiveness generally.

"This is Silicon Valley—the flagship symbol of American genius and enterprise. If we're in trouble there, is there any American industry that won't be in trouble?"

Herz said the interagency group is trying to present an objective picture of the threat to the U.S. semiconductor industry as a basis for administration policy decisions.

Robert M. Burger, vice president of the Semiconductor Research Corp., an industry group, said the mounting concern about the industry within the administration, Congress and the industry itself may be leading to the creation of a national semiconductor strategy.

"In various government agencies and industry, a number of initiatives have been proposed. Each one of these studies is coming at it from a different angle." A national strategy would have to establish goals and allocate resources, he said.

The threat faced by the U.S. computer industry is demonstrated by the situation of Cray Research Inc., a leading U.S. manufacturer of supercomputers, according to Larry W. Sumney, president of the Semiconductor Research Corp. Cray, Sumney said, is completely dependent on its Japanese competitor, Fujitsu, for the memory chips in two of its top models.

The risk for Cray is that if Fujitsu's research produced a breakthrough in chip design, that technology could be made available to the Japanese company's supercomputer developers well before the chips were put on the market, giving the Fujitsu team a crucial advantage, Burger said.

Cray declined to comment. An industry source said that Cray's dependency is a source of concern, "but not despair." Cray does a lot of its own semiconductor development and continues to seek a wide range of sources for chips.

However, each market that Japan's companies capture generates more profits to support the costly research that will decide future competition. "That's why the rich get richer in this industry," the source said.